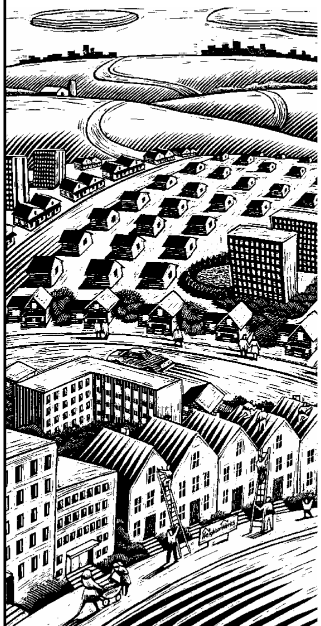
NeighborWorks®
AMERICA

Strategies for Successfully Marketing and Stabilizing the Occupancy of Mixed-Income/Mixed-Race Properties

A Case Study of Academy Homes 1 in Roxbury, Massachusetts

October 2005



Strategies for Successfully Marketing and Stabilizing the Occupancy of Mixed-Income/Mixed-Race Properties

Case Study of Academy Homes I

In Roxbury, MA

October 2005

Produced by
Judy Weber
VIVA Consulting

This work was funded by a Ford Foundation Grant from their "Flexible Capital" Grant Funding Programs for the Development or Preservation of Mixed-Income/Mixed-Race (MI/MR) Developments and Practical MI/MR Research Assessments. The grant was awarded to NeighborWorks® America who partnered with Abt Associates and Viva Consulting to conduct the study.

Site at a Glance:
Academy Homes I in Roxbury, Massachusetts

Property	Residents	Neighborhood
202 units, 1 to 5 BR units	553 residents	4,142 residents (census tract)
87 Project-Based S8 units 66 LIHTC units 49 Market-Rate units	2004 Median Income: All: $27,789 2004 Median Income Market: $54,739	2004 Census Tract Median Income: $32,386 (43% of area median)
Average Unit Size = 2.92 Bedrooms	52% < 30% of 2004 median 16% > 60% of 2004 median	30% poverty rate
14 townhouse and garden style buildings terraced along hillside	60% Black 39% Hispanic	50% Black 41% Hispanic
Built in 1960s		• Diagonally across from commuter train in Jackson Square (and 6.5 acre area slated for revitalization over next 10 years). • Grocery, drug and small retail stores and restaurants nearby. • Formerly distressed neighborhood that has rebounded and now has a mix of incomes, but still has significant amount of designated affordable housing stock.
Jointly owned by Urban Edge-Tenant Council (50/50) since 1998	50% of households have children 37% of all residents are children	
Managed by Urban Edge Property Management --------------- Avg Unit Turnover = 10%	76% of households have one or more employed household members	

Keys to Success

- Good financing that allows property to maintain profitability at below market rents and still do modest upgrades annually
- Mixed-income, mixed-race neighborhood experiencing modest revitalization; residents comfortable with economic and racial diversity
- Convenient location for work (across from rapid transit line), shopping and schools
- Harmonious Academy Homes' community with low population density, small number of children, high number of working households and long tenancies.
- Decent units, onsite management office, and competent management

Section 1: What Type of Mixed-Income Property is This and Why Does it Work?

Academy Homes I is a 202-unit mixed-income, mixed-race rental property located in the Jackson Square neighborhood of Boston's Roxbury district. While Roxbury's population has declined modestly (3.8 percent from 1990 to 2000), the Hispanic population has been growing steadily and Roxbury is now 63 percent Black and 24 percent Hispanic. Most (83 percent) of its residential properties are comprised of one, two and three family dwellings where the owner-occupancy rate is 61 percent. The median residential sales price in Roxbury reached $406,000 in 2003, surpassing Boston's $380,000 median sales price.[1]

Academy Homes was built in the 1960s under HUD's 221(d)(3) program. It received upgrades to major building components (such as roofs and windows) in 2000 after the current ownership took over in 1998. It has three types of units: 43 percent are project-based Section 8; 33 percent are low income housing tax credit (LIHTC); and 24 percent are market rate. It is in a mixed-income, mixed-race urban neighborhood where residents are comfortable with economic and racial diversity. It is diagonally across the street from a rapid transit "T" station. Schools, a sizeable grocery store, shopping and restaurants are all within walking distance. It is one of several large multi-family complexes clustered in the area that total 2000 units.

a. What Mixed Income/Mixed Race Models Does Academy Homes Typify?

1. Academy Homes is an example of a model that was *created through moderate public intervention/funding efforts*. Academy Homes includes 87 units that have project based Section 8 rental subsidies. MassHousing, the local state housing finance agency, made these units available from the HUD Demonstration Disposition program (known locally as "Demo Dispo") it was administering. In addition, HUD was anxious to see this troubled property "worked out." It agreed to the partnership assuming the $4.4 million balance of the existing HUD mortgage and it also provided $2.5 million in a rehabilitation loan. Both come due in 2038 and call for principal and interest payments to come from surplus cash.   As a result, Academy Homes has three income tiers: low (project based-Section 8 residents), moderate (LIHTC residents), and market.

2. Academy Homes is *located in a "hot real estate market."* The entire Boston market is red hot in terms of residential sales prices, but percentage increases have been even more so in traditionally lower-income neighborhoods such as Roxbury.   The median resident sales in Roxbury rose from $176,380 in 2000 to $406,000 in 2004, an increase of 130 percent!   The Jackson Square part of Roxbury is also on the rise; the City recently granted developer

[1] "Roxbury Data Profile" by the City of Boston's Department of Neighborhood Development using 2000 Census Data and *The Boston Indicator Report.*

designations for a $205 million mixed-used redevelopment of the square that will include housing; retail, office and institutional space; active indoor recreation space and substantial site and street improvements.

b. Why is Academy Homes a Successful Mixed-Income/Mixed Race Property?

1. *Academy Homes aligned its ownership, resident retention, rehabilitation and ongoing operational goals right from the start.* The two primary objectives of the new CDC/tenant ownership were to not displace residents and address the property's most pressing physical needs. These two objectives guided the strategies they adopted. Renovations were set at a modest (rather than a gut rehab) level and did not include cosmetic unit upgrades. In addition, the permanent mortgage (or "hard debt) was secured at a very favorable rate and represented less than half of the total development costs. The balance came from subordinate and soft loan sources. This resulted in a relatively low annual operating debt obligation. A low debt requirement made it possible to keep market and even tax credit rents below market and also fund replacement reserves at above normal levels. As a result, implementing below market rent increases for existing non-subsidized residents (both tax credit and market) while gradually improving the property with annual upgrades have helped kept tenant satisfaction and retention high.

2. *Tenant and non-profit partnership created a decision-making agreement that values each partner.* The new CDC/tenant ownership agreed from the start that they would make decisions by consensus whenever possible. When consensus was not possible, the party that was most impacted by the decision would prevail. To date, decisions have followed this standard successfully.

3. *The lenders were very supportive.* Mass Housing and HUD agreed with the plan. MassHousing was willing to make available very scarce and very valuable project-based Section 8 subsidies and HUD was willing to subordinate its existing mortgage and rehab loan.

4. *Quality affordable alternatives are scarce and affordable housing is in high demand.* The vacancy rate has been below 1.1 percent since the renovations were completed. The waiting list has been closed for 2 years there and has 248 households on the waiting list including 77 for the market-rate units. With an annual move-out (or turnover) rate of 10 percent it could be several years before the waiting list is re-opened.

5. *Market rents are high value and create stability for the community Academy.* Homes was committed to retaining existing residents (50 of the households were not eligible for any subsidy when the new ownership took over). They specifically decided not to undertake renovations that would maximize market rents but, rather, would offer great value for a below market price. Units are modest in their features (no diswashers, for example).

Market rents range from $200 to $1,000 below the market based on tenure and apartment size. In addition, Academy Homes did not reserve a disproportionate share of its larger units for its lowest income households. Rather, 36 of its 49 market units (73 percent) are 3 or more bedroom apartments, whereas 50 of its 87 (57 percent) project-based Section 8 units are 3 or more bedrooms. Large market units at any rent are rare in the market and the size as well as the price of the market units has undoubtedly contributed to their appeal, very low turnover and stability within the rental community.

6. *A Mixed-income, mixed-race community already existed.* Academy Homes is located in a mixed-income, mixed-race neighborhood experiencing modest revitalization. Residents are comfortable with economic and racial diversity and by all accounts Academy Homes is a generally harmonious community.

7. *The property is not overcrowded and its resources are not overtaxed.* Several ingredients were identified as creating a sense of community and harmony at Academy Homes. A number of them had to do with the property's not experiencing significant social or physical challenges. This is attributed, in part, to the fact that not every unit is filled to capacity. Today, the average apartment size is 2.92 bedrooms per unit and the average number of residents per apartment is 2.7. This is an average of approximately one person per bedroom. A significant number of households (76 percent) have an adult member working which takes them away from the property regularly. There are also a relatively small number of children (205 – just over 1 child per household). This may be due, in part, to the long tenancies and the resultant decrease in children living at home as they grow up and move on. Annual turnover is only 10 percent overall – so not only do families "age in place," but also "everyone knows everyone." In fact, a recent management focus has been transferring subsidized residents who are currently overhoused, a situation inherited by the new owners.

8. *The owner is motivated to produce a positive bottom line.* A number of fees can be paid, but only from cash flow. As a consequence, the owner pays attention to maximizing revenues and minimizing expenses without compromising standards. Replacement reserves must be funded and any adjustments to the reserve strategy will affect the bottom line. In 2002 nearly $150,000 was distributed in resident services fees, asset management fees, incentive management fees and development fees.

9. *A convenient location to schools, transportation, shopping, health care and onsite management.* Academy Homes benefits from its close proximity to public transportation, major roadways, shopping, restaurants, schools and health care. Its onsite management office and Laundromat are also advantages in an area where absentee landlords are more common than not.

10. *The owner is staying on track with ongoing, planned renovations.* In 2004 the property repainted 66 units, installed new floors, replaced 100 individual boilers and did $100,000 worth of landscaping. It is currently escrowing at the rate of $1,350 per unit per year to fund ongoing capital and replacement projects. Because of the tenant ownership, residents actively participate in the decisions about which project will be undertaken annually.

c. What Hypotheses about Successful Mixed-Income Housing Does This Property Support?

Academy Homes is a successful example of the following hypotheses about mixed-income housing:

1. *Mixed-income housing works best where there is intentionality on the part of the developer to see to it that the project mix works well.* It was a very specific strategy that Academy Homes be mixed income. The non-profit spent a lot of time initially with its tenant partner and the residents focusing on crafting a mixed-income strategy that would offer all who wished to remain a fair and affordable rent, including those who were not eligible for any rental subsidy. The market tenants were not "high income" market tenants. Therefore, to make this work, the partners knew they would have to offer both below market rents and phase in market rent increases if they were to retain all existing residents. This in turn would limit the level of debt that could be carried and consequently the level of renovation that could be accomplished. The result was a modest renovation of core building systems with an aggressive replacement reserve strategy that would enable continued capital upgrades each year. The project would be improved on a "pay as you go basis," rather than all at once.

2. *Mixed-income housing cannot be successful unless the fundamentals of real estate development are followed.* Academy Home's intent was to be and remain an affordable mixed-income development. Obtaining HOME funds from the City and State, linkage funds from the City, a subordinated loan from HUD, and low income housing tax credits resulted in only 21 percent of its permanent funding sources coming from "hard debt." With essentially no acquisition costs (the existing HUD mortgage was assumed, but was also subordinated), the property can charge affordable market rents, have sufficient operating funds to pay its routine expenses, service its debt responsibly and fund its replacement reserve at much higher rates than is typical. In addition, if managed properly, the property can generate sufficient cash flow to fund various partner asset management, resident services and incentive management fees that are shared with the Tenant Council.

3. *Mixed-income housing in distressed areas requires a great deal of effort on the part of the developer or other champions to create a product and an environment capable of attracting market rents and buyers.* While Academy Homes and the broader neighborhood do not appear any where near as "distressed" today as they did 15 years ago, the neighborhood still has a 30 percent poverty rate, 84 percent of the households are in rental housing where many routinely pay more than 50 percent of their income for rent, and there is occasional gang activity. Academy home succeeds in attracting market-rate tenants by providing decent housing, rents that are a bargain in a hot real estate market, creating a safe and cohesive community through staff and resident leader efforts and low turnover that gives neighbors a chance to get to know each other, and good landscaping and exterior maintenance that signal to current and potential renters that this a nice place to live. Urban Edge, the co-owner, is also active in several other development efforts in the neighborhood to help the neighborhood continue to improve.

4. *Community building in mixed-income settings requires ongoing efforts by management and residents to limit conflict and build a workable community among people of different backgrounds.* It has been the express intent of the non-profit and tenant owner to harness their respective skills and interests to foster a sense of pride and ongoing community. The non-profit provides ongoing resident services programming at the property and the resident council is active in promoting resident involvement from social events to keeping an eye out and reporting unwanted behavior. The site manager reports that interaction and participation across racial, ethnic and economic groups is frequent, in part because the turnover rate is so low and everyone knows everyone.

5. *Mixed-income housing succeeds when residents experience upward mobility, their rent burden decreases and they don't have to move, unless by choice.* Many LIHTC residents who meet the eligibility requirements may easily be paying more than 40 percent of their income for rent when they first move in. If their income decreases for any reason, they quickly fall behind in their rent. At Academy Homes, where 76 percent of the households have someone employed, the rent burden has eased over time for many households. Today, the average percent of gross (unadjusted) income paid for rent, property-wide, is 22 percent, exclusive of utilities. This results in greater ease in residents paying rent on time, little eviction activity and few collection issues (tenant accounts receivable were less than 1 percent in 2003). All these events have a positive effect on the bottom line. At the same time, the opportunities for affordable homeownership are increasing out of reach as both housing costs and mortgage rates rise. Therefore, families rent longer, turnovers remain low and, with longevity, residents look out more for each other's interests.

Section 2: History of the Property

a. Development History

The property was built in the 1960s, originally financed under HUD's 221(d)(3) program and owned by a California-based limited partnership. There was no local ownership presence. The property struggled for years in a cycle of regulated below market rents and inadequate maintenance, ultimately defaulting on its mortgage. In 1994 HUD was considering a rent increase for the property. However, it received such strong opposition from the residents about property conditions that HUD advised the residents to seek a local non-profit to help them gain control of Academy Homes. The residents began meeting with the non-profit neighborhood-based community development corporation in 1995, a purchase and sale agreement was signed that same year and the Academy Homes Urban Edge Limited Partnership was formally organized in December 1997.

The non-profit was immediately responsive to the Academy Homes tenants and forged a unique 50-50 partnership venture with them to acquire, refinance and modestly renovate the property. The non-profit has a longstanding strategy to be involved in the acquisition and renovation of affordable housing along the major, visible arteries of Columbus Avenue and Washington Street in its service area. Academy Homes held a key location in Jackson Square.

Once the new ownership took over in 1998, Academy Homes underwent a $10 million renovation that included new roofs and windows as well as modest unit upgrades. Under the current ownership, the property has three income tiers that provide a more significant revenue stream than previously, but still offer decent quality housing at below market rents. The tiers are composed of 87 project based Section 8 units piggy-backed on 151 Low Income Housing Tax Credit (LIHTC) units and 49 market rate units. Both the LIHTC and market rents are below the allowable and attainable rents. A specific goal of the new ownership was to retain as many of the existing residents as wanted to stay.

b. Ownership and Management Team

Academy Homes Urban Edge Limited Partnership owns the property. The General Partner, Academy Homes Urban Edge, Inc., is owned 50-50 by Urban Edge Housing Corporation (UE) and the Academy Homes I Tenant Council (AHITC). UE and AHITC have a consensus form of decision-making. When a consensus is not possible, whichever party is most impacted by the decision prevails. For example, Urban Edge Property Management recently recommended a five-percent rent increase for the market residents. AHTA "pushed back" and a three-percent increase was enacted. To date, there have been no incidents where consensus has not been reached.

Urban Edge Housing Corporation is a 30-year old community development corporation working in Boston's Jamaica Plain and Roxbury neighborhoods. UE has developed and preserved over 1220 units of affordable housing, including 158 homeownership units. Its management division, Urban Edge Property Management (UEPM), manages over 1200 units of affordable housing and 65,000 square feet of community facilities and commercial space. Academy Homes is one of the few properties UEPM manages that has a market-rate tier.

Section 3: Property, Residents and Neighborhood

a. Basic Property Information

Academy Homes I is a 202-unit multi-family residential property located in the Jackson Square neighborhood of Boston's Roxbury district. It contains 14 three- to four-story concrete buildings terraced along a hillside with both townhouse and garden style units. All roadways and parking areas surrounding the property (including interior parking lots) are owned and maintained by the City of Boston. There are also 3 commercial tenants: an insurance agency, a convenience store and a barbershop. The buildings containing the commercial tenants—as well as the property management office, development laundromat, and the community space—front on Columbus Avenue, a major thoroughfare.

As *Table 1* shows, Academy Homes has provided a mix of unit types across the income tiers. It is particularly notable that 73 percent of the market units have three or more bedrooms. This is a slightly higher share of large unit types than the LIHTC and Section 8 units at Academy Homes (67 percent) and vastly larger than in typical market-rate developments. In most market-rate developments, less than 25 percent of the units have three or more bedrooms.

Table 1: Unit and Income Mix

Unit Composition	1 BR	2 BR	3 BR	4 BR	5 BR	TOTALS
Project-Based Section 8	15	22	29	16	5	87
LIHTC	6	9	26	16	9	66
Market	2	11	25	11	0	49
TOTAL UNITS	**23**	**42**	**80**	**43**	**15**	**202**

Note: 85 of the Project-Based Section 8 units also have a LIHTC subsidy.

b. Resident Characteristics

Academy Homes is a family development of primarily working households with a median income of approximately $28,000, or only 37 percent of the area median. (See Table 2.) Although the development is home to mostly low and very low income households, 16 percent of the households have incomes above the tax credit maximum of $45,000. A majority of the leaseholders are black (60 percent) and most of the rest are Hispanic (39 percent). The resident population is extremely stable: the average tenancy is 10+ years.

Table 2: Resident Characteristics

Resident Characteristics	Numbers	Percentage
• **Households** o Black o Hispanic o White o Other o TOTAL	 121 78 1 2 202	 59.9% 38.6% 0.5% 1.0% 100.0%
• **Number of children under 18**	205	37.1%
• **Number of households with at least one working adult**	133	65.8%
• **Median household income**	$27,789	37% of 2004 AMI
• **Market Households Median Income**	$54,739	73% of 2004 AMI
• **Households with incomes above $45,180 (60% of 2004 AMI of $75,300)**	32	16%

c. Neighborhood Characteristics

The Jackson Square neighborhood is largely residential with some commercial and light industrial uses as well as some vacant and underused land. Most of the residential structures, like all those throughout Boston, were built before 1945. Forty percent of the housing is single-family or garden/row/townhouses. Sixty percent are multifamily structures from 2 to 10 units per building. Much of the housing requires some minor repair. The condition of the streets, sidewalks and lighting (as well as other municipal infrastructure and amenities) range from fair to good.

The quality of the immediate Academy Homes neighborhood has improved modestly over the last decade, and is generally well kept. The housing is 86 percent renter-occupied and primarily consists of three-flats and garden-style multifamily developments. The estimated median family income of $32,386 in 2004 is almost $5,000 higher than at Academy Homes, but is still only 43 percent of the metropolitan area median. The population is 50 percent black and 41 percent Hispanic.

There are continued signs of revitalization and gentrification. The abutting Academy Homes II is comparable in size and has just completed a multi-million dollar redevelopment involving demolition of the former concrete structures and their replacement with neighborhood scale wood and brick buildings. While 100 percent of its units have project-based Section 8 subsidies, it looks more like a mixed-income community than Academy Homes I with its peaked roofs and new horizontal siding. Two blocks away a new condominium community is nearing construction completion. One indication of the rising property values in the neighborhood is that a 3-family building that sold for $94,000 in 1994 sold for $400,000 ten years later.

Table 3: Summary Neighborhood (Census Tract) Information

Characteristic	**Number**
Neighborhood Population	
Number of Households	1589
Number of Residents	4,142
Neighborhood Income Levels	
2004 HUD Estimated MSA Median Family Income	$75,300
2004 Est. Tract Median Family Income	$32,386
Tract Median Family Income %	43%
% Below Poverty Line	30%
Race/Ethnicity	
% Black	50%
% Hispanic	41%
% White (non-Hispanic)	4%
% Other race	5%
Neighborhood Housing	
Total Housing Units	1714
Median Age of Housing Stock (years)	41 years
% owner occupied	9%
% renter occupied	84%
% vacant	7%

The property is close to Roxbury Community College, the Jackson T (transit) station, a large super market, churches, a high school and an elementary school. It is also close to Centre Street in Jamaica Plain, a vibrant retail and residential corridor of small shops and restaurants. Site staff most frequently mention the T station's proximity as a big draw.

6.5 acres of publicly owned land abutting the property to the north and west are slated for redevelopment beginning within one year and over the next 5-6 years. The plans call for homeownership, commercial and retail opportunities as well as community facilities clustered around the nearby Jackson T station. Nearby Egleston Square has experienced modest but continuous improvement over the last dozen years as has the residential Fort Hill area to the north where single family home sales are appreciating at some of the highest rates in the Boston area. The scale and scope of this redevelopment will soften the visual impact of the 737 unit resident-managed Bromley-Heath public housing development that is clearly visible from Academy Homes. Bromley-Heath experiences occasional notoriety (sometimes with Academy Homes, although rarely since UEPM became the property manager).

Abutting the property to the south is the Dimock Community Health Center. It is a large operation offering 80 health and human service programs including a comprehensive health clinic, Head Start and preschool programs, and workforce development. An emergency shelter is located on that part of its campus closest to Academy Homes.

While the shelter is not considered to have a negative impact on Academy Homes, patients coming to the methadone clinic sometimes do.

Directly to the north is a large salt shed depot maintained by Boston's Department of Public Works.

Section 4: Initial Stabilization of Occupancy

Academy Homes has enjoyed stabilized occupancy ever since the current ownership was established. All aspects of the ownership have been focused on maintaining affordability, for the residents in the income tier for which the household qualifies. In fact, once the tenants and Urban Edge signed the purchase and sale agreement in 1995, they supported a rent increase. But their overriding concern was to guarantee no one was displaced as a result of a rent increase before there were any physical improvements. So, in lieu of a cash deposit for the property, Urban Edge said that if any tenant came to the then landlord and said they could not pay the higher rent, Urban Edge would pay the difference so the tenant would not have to move. Over a period of 2.5 years, Urban Edge paid $78,000 in "rent subsidies" to the owner in lieu of a cash deposit.

Throughout their partnership, Urban Edge and the Tenants Association have done a lot of work with the community around raising the rents. This has included promising market tenants that their rents would be increased only 5 percent annually (in fact, they have been increased less than that). Consequently, many long time market tenants are well below the attainable market rents for the area.

a. Market Tier is Inherited and Phased In

One of the first mutually agreed upon goals of the UE/AHITC partnership was to identify subsidy needs and compatible financing that would not displace any existing households. During an income certification process, it was learned that about 50 (nearly 25 percent) of the 202 households were over income for any available subsidy program. Additionally, a significant number of households were struggling with the unsubsidized rent, low as it was. MassHousing, the local state housing finance agency, made available 87 Section 8 project-based subsidies from the HUD Demonstration Disposition program (known locally as "Demo Dispo") it was administering. The market and very low "income tiers" then influenced the number of LIHTC units ("low" and "moderate") that would make the project work.

Additionally, it was established that rent for existing "market" tenants would not be raised to the attainable market rents but, rather, be increased no more than 5 percent annually (in fact, it has often been less than 5 percent). As a consequence, most market rate tenants are paying $200 to $400 per month below Academy Homes' "turnover" market rents that, in turn, may be another $200 -$400 below the attainable market rents per a May 2004 UEPM commissioned market study. (See Table 4.)

Table 4: 2004 Published Rent Schedule at Academy Homes[2]

Unit Size	Sec 8 Contract Rents (11/01)	LIHTC Rents Current	LIHTC Rents Turnover	Market Rents Current	Market Rents Turnover	Market Comps (5/04) prepared for UEPM	HUD FMRs (FY2005)
1 BR	684	624	893	680	930		1077
2 BR	863	717	1074	780	1116	1585	1266
3 BR	1083	827	1242	901	1290	1875	1513
3+ BR		874		926			
4 BR	1272	943	1383	1026	1438	2150	1676
4+ BR		1012		1071			
5 BR	1463	1104	Not set	1203	Not set		

Market rents of existing residents are only 6 to 9 percent higher than LIHTC rents of current residents although the incomes of the households in the market units are significantly higher. The difference between the market and LIHTC rents at turnover is only 4 percent and is based on the utility allowance for the LIHTC units.

A number of current LIHTC (40) and market tenants (9) hold Section 8 vouchers that the property welcomes. (See Table 5.) The voucher rents are often higher than Academy Homes' market and LIHTC rents. This is not surprising since even the market-rate rents for new residents are only 85 to 88 percent of HUD's fair market rents (FMRs) for the metropolitan area.

Table 5: Income Mix, Adjusted for Use of Certificates and Vouchers

	Very Low	LIHTC	Market	Totals by Units	Totals by %
Project-based Sec. 8	87			87	**43%**
Tenant-based Vouchers		40	9	49	**24%**
No subsidy		26	40	66	**33%**
TOTALS	**87**	**66**	**49**	**202**	**100%**

b. Racial Mix Making Gradual Shift Over Time

Throughout its history, Academy Homes, like its neighborhood, has been overwhelmingly minority. While the mix at the property reflects the immediate neighborhood's shift from predominantly black to other minorities, the property is home to a somewhat higher percentage of black residents than the neighborhood. While Academy Homes' very low annual turnover contributes to the stability of this mix, the manager reports that interest in market-rate apartments comes overwhelmingly from

[2] Market and LIHTC rents increase in April of each year

black applicants. In fact 30 (75 percent) of the 40 market residents without subsidy are black.

Table 6: Racial Mix at Academy Homes and in Neighborhood

Race	**Academy Homes: 2005: Households**	**Academy Homes: 2005: Population**	**Census Tract: 1990 Population**[3]	**Census Tract: 2000 Population**	**Egleston-Jackson Corridor: 1990**	**Egleston-Jackson Corridor: 2000**
Black	59.9%	57.5%	62.8%	51.3%	51%	44%
Hispanic	38.6%	41.4%	30.8%	40.8%	38%	23%
White	0.5%	0.4%	5.0%	4.1%	9%	24%
Other	1.0%	0.7%	1.4%	3.8%	2%	9%

Urban Edge has also compiled demographic information on the Egleston-Jackson corridor comparing 1990 to 2000 census data that includes several neighboring census tracts to the one in which Academy Homes is located. As Table 6 demonstrates, the surrounding area, which is larger than the census tract is more diverse than either Academy Homes or its census tract. In fact, the Egleston-Jackson corridor was relatively evenly split among blacks, whites, and Hispanics by 2000.

c. Occupancy and Demand are High

The vacancy rate has been low throughout Urban Edge's ownership.   Vacancies were 3 percent in 1998 before the renovations, 5 percent in 1999 during renovations and 0.7 percent in 2001 and 1.1 percent in 2003 after the renovations. All renovations were undertaken without moving any residents and occupancy remained at 95 percent throughout the renovation period.

There is a Waiting List for all income tiers and bedroom sizes. Even though the waiting list has not been open for 2 years there were 248 households on the waiting list as of November 2004, including 157 for the Section 8 units, 14 for the LIHTC units, and 77 for the market-rate units. The waiting list is updated annually to ensure continued interest in renting a unit at Academy homes and at least self-reported eligibility for the Section 8 and LIHTC units.   The waiting list indicates the demand for Academy Homes units, including the market-rate apartments, is high at current conditions and prices.

[3] The census tract data has been compiled as follows: Black (non-Hispanic), Hispanic (any race), White (non-Hispanic) and Other minorities (non-Hispanic).

Section 4: Maintaining High Occupancy Rates and Profitability

Occupancy has remained high. It has been at or above 95 percent since the current ownership was formed and has been around 99 percent since the renovations were completed in 2000. It would be 100 percent except it takes 22 days to re-occupy a unit.

There is literally no marketing at Academy Homes. The only marketing that took place was two years ago and that was because the waiting list was opened and an advertisement was placed seeking new applicants for the waiting list. There are no brochures, collateral materials, display ads or advertising copy.

Market (and LIHTC residents) choose Academy Homes for the following reasons:

a. the rents (they are lower than other options and include heat and hot water),
b. they know someone who lives at Academy Homes,
c. they come from the neighborhood,
d. they work nearby or some place accessible by the T– 76 percent of households have someone employed

All applicants are told about the mixed-income character of the property and the eligibility requirements for each tier. Most applicants are familiar with the property when they apply and market tenants stay on the waiting list for a long time because the rents are so much lower than what is available in the market. Annual turnover is only 10 percent, which is very low for any multifamily property.

All applicants are screened in exactly the same way, which includes landlord and income verification and a credit check. The property expects to initiate CORI (Criminal Offender Record Investigation) criminal background checks soon. Market tenants sign the LIHTC lease and have their income certified annually along with the LIHTC tenants.

Rents are set in conjunction with the creation of the annual budget. The Tenants Association has a moderating effect on rent increases. The operating budget is robust ($9,667 per unit in 2004 that included $1350 per unit for the replacement reserve). It has been an explicit strategy to fund the replacement at high levels in order to continue to do capital improvements annually. In 2004 the property repainted 66 units, installed new floors, replaced 100 individual boilers and did $100,000 worth of landscaping.   Tenants participate in selecting the areas for improvement.

Units are modest in size and amenities. There are no washer/dryer hook-ups (although there is an attractive laundry room) or dishwashers. Flooring is vinyl and storage is minimal. There is no assigned parking. For this owner it is about preserving a community with decent, affordable housing. At Academy Homes, mixed income means a wide range of incomes but a rather narrow band of rents in exchange for community stability and affordability.

"Surplus Cash" is more of a strategy than "profitability." Various incentives and fees are available to Urban Edge and are tied to the surplus cash calculation. The results for 2002 and 2003 were as follows:

Table 9: Distribution of Cash Flow

Fee	Distributed 2002	Accrued 2003
Resident Services Fee	69,703	67,492
Asset Management Fee	27,040	28,114
Incentive Management Fee	20,858	
Development Fee + Interest	28,578	
TOTALS	**146,179**	**95,610**

Resident Services are provided through Urban Edge's Community Services Department, which is located off site and serves all of Urban Edge's properties. The Community Service Department provides information and referral services for residents, community outreach and support of resident organizing, collaboration to prevent crime and support of youth and community initiatives. A Resident Services Coordinator also works part-time at the site.

Section 6: Financing Sources and Costs

a. Low Cost Funding Keeps Annual Debt Requirements Low

When the Academy Homes Urban Edge Limited Partnership purchased the property in 1998, the partnership assumed the $4.4 million balance of the existing HUD mortgage and HUD also provided $2.5 million in a rehabilitation loan. Both come due in 2038 and call for principal and interest payments to come from surplus cash. MassHousing provided $7.6 million in financing at 5.85 percent plus 0.5 percent annually on the principal balance. Monthly payments of principal and interest equal $44,191 ($530,292 annually). The soft debt will likely be forgiven if affordability restrictions are maintained.

In addition, the Commonwealth of Massachusetts provided a $500,000 HOME loan with interest at .01 percent per annum with all principal and unpaid interest due in 2038. Similarly, the City of Boston provided both a $500,000 HOME loan and a $500,000 linkage loan, each with interest at interest at 6 percent per annum with all principal and unpaid interest due in 2038.

Table 8: Financing Information

Lender	Debt	Rate	Amount	Annual Requirement
MassHousing	Permanent Loan	5.85%	7,600,000	530,292
HUD	Supplemental Loan	6.16%	4,400,000	Subordinate
HUD	Supplemental Loan	5.25%	2,500,000	Subordinate
Comm of MA	HOME	0.01%	500,000	Soft
City of Boston	HOME	6.0%	500,000	Soft
City of Boston	Linkage	6.0%	500,000	Soft
UEHC	Development Fee	7.0%	24,844	Cash Flow
TOTAL DEBT			**16,024,844**	

The 99.9 percent limited partner has contributed $7,128,715 in equity in exchange for 99.9 percent of the profits, losses and tax credits of the Partnership.

The annual percentage of gross potential rent required to service the "hard" debt was 21 percent. The combination of a modest $10 million renovation and favorable financing terms aligned with the goal to keep the market and LIHTC rents below attainable levels.

b. Operating Performance is Creating Thinner Bottom Lines Than Planned

Academy Homes' initial multi-year operating projection anticipated modest rent and operating increases as well as sizeable annual replacement reserve deposits. These deposits would fund the additional repairs not undertaken during the renovation. Additionally, starting in 2000, there would be cash flow available to fund resident services, asset management and pay an incentive management fee, if earned.

Urban Edge has generally followed the initial plan, although rent increases have been less and expenses somewhat higher than originally planned resulting in smaller cash flow results in the early years. There have been only 3 new market tenants since 2000, which is extraordinary given that most market-rate units turn over at an annual rate of 50 percent or more. This may be due, in part, to how below the attainable market rents the actual market rents are and the fact that annual increases have not kept up with those initially planned.

The marketing and decorating expenses are exceptionally low for a property of this size. There is very little turnover accounting for little decorating expense. Marketing is virtually non-existent since the Waiting List is updated annually and is a ready source for new residents. The legal expense is not large, but indicates there is some work required in collecting rents, whether they are below market or subsidized.

Replacement reserve deposits have been made generally as planned and ongoing improvements are undertaken annually.

Table 7: Change in Revenues, Rent Loss and Associated Marketing Expenses Over Time; Comparison of initial projections vs. actuals (in dollars)

	1999 projected	**1999 actual**	**2001 projected**	**2001 actual**	**2003 projected**	**2003 actual**
Gross Rental Revenues (Residential)	2,082,548	1,948,768	2,405,965	2,176,634	2,519,740	2,468,629
- Vacancies (Residential)	(72,006)	(98,853)	(83,712)	(14,522)	(87,827)	(28,602)
- Relocation	(513,890)		0	0	0	0
- Bad Debts		(16,970)		(1,312)		(18,101)
+ Commercial Rent	21,300	21,300	22,161	31,788	23.056	42,000
+ Other Income		28,544		76,423[4]		266,848[5]
= Effective Rental Income	1,517,952	1,882,789	2,344,414	2,269,011	2,454,969	2,730,774
- Legal		(27,718)		(27,107)		(38,973)
- Marketing		(1,927)		(76)		(409)
- Decorating		(20,560)		(40,650)		(2,940)
- Total/Other Operating Expenses	1,203,984	(1,377,574)	(1,391,921)	(1,391,800)	(1,470,227)	(1,639,786)
- Replacement Reserve	0	0[6]	(252,096)	(422,727)	(272,667)	(272,664)
- Hard Debt	0	0	(568,302)	(566,733)	(568,302)	(513,651)
- Capital Improvements or R/R Expenses	0	(44,839)		(35,846)		(228,197)
= Cash flow	0[7]	275,171	137,838	(215,928)	143,774	34,154

4 Includes $59,976 in replacement reserve reimbursements
5 Includes $228,197 in replacement reserve reimbursements
6 There was, however, a $135,000 Special Escrow deposit
7 Initial year cash deficit or surplus covered by or contributed to development budget